

1. What is the Federal Reserve System?

The Federal Reserve System, also known as "The Fed," is the central bank of the United States. In its role as a central bank, the Fed is a bank for other banks and a bank for the federal government. It was created to provide the nation with a safer, more flexible, and more stable monetary and financial system. Over the years, its role in banking and the economy has expanded. The Federal Reserve System is a network of twelve Federal Reserve Banks and a number of branches under the general oversight of the Board of Governors. The Reserve Banks are the operating arms of the central bank.

2. Who created the Federal Reserve, and when was it created?

Congress created the Federal Reserve System on December 23, 1913, with the signing of the Federal Reserve Act by President Woodrow Wilson. The Federal Reserve System includes the Board of Governors and the twelve regional Reserve Banks. It took nearly a year from the time President Wilson signed the Act to determine the boundaries of the twelve Federal Reserve Districts and to establish the twelve regional Reserve Banks.

3. What is the Board of Governors?

The Board of Governors oversees the Federal Reserve System. It is made up of seven members who are appointed by the President and confirmed by the Senate. The full term of a Board member is 14 years, and the appointments are staggered so that one term expires on each even-numbered year. After serving a full term, a Board member may not be reappointed. If a member leaves the Board before his or her term expires, however, the person appointed and confirmed to serve the remainder of the term may be later reappointed to a full

4. Who are the members of the Board of Governors?

Current Board members.

5. Where is the Federal Reserve Board of Governors located?

The Federal Reserve Board of Governors is located in Washington, D.C

6. What are some of the main responsibilities of the Federal Reserve System?

The Federal Reserve's responsibilities include:

- Conducting the nation's monetary policy to help maintain employment, keep prices stable, and keep interest rates relatively low
- Supervising and regulating banking institutions to make sure they are safe places for people to keep their money and to protect consumers' credit rights.
- Providing financial services to depository institutions, the U.S. government, and foreign central banks, including playing a major role in clearing checks, processing electronic payments, and distributing coin and paper money to the nation's banks, credit unions, savings and loan associations, and savings banks.

The Federal Reserve System also

- Conducts research on the U.S. and regional economies.
- Distributes information about the economy through publications, speeches, educational seminars, and web sites.



7. What are the twelve Federal Reserve Districts?

Under the Federal Reserve System, the United States is divided into twelve regions, or Districts. Each District has a Reserve Bank serving it. The twelve Reserve Banks are named after the city in which they are located:

8. What are interest rates and why are they important?

Interest rates are the prices that people pay to borrow money or are paid to lend money. Interest rates, like other prices, are determined by the forces of supply and demand. Higher interest rates provide incentives for people to save more and borrow less. Likewise, lower interest rates provide incentives for people to borrow more and save less. When interest rates rise, businesses are likely to invest less in capital and households are likely to spend less on housing, cars, and other major purchases. Lower interest rates are likely to cause businesses to invest more in capital and households to buy more big ticket items. In this way, interest rates affect the level of economic activity in the economy. The Federal Reserve System is able to affect the level of interest rates through its monetary policy.

9. What is inflation?

Inflation means that the general level of prices of goods and services is increasing. When inflation is rapid, the prices of goods and services can increase faster than consumers' income, and that means the amount of goods and services consumers are able to purchase goes down. In other words, the purchasing power of money has declined. With inflation, a dollar buys less and less over time.

The Federal Open Market Committee tries to keep inflation low and stable in the long run because that helps the economy to keep growing over long periods of time. When inflation is low and stable, businesses and households can make better spending and investment plans because they do not have to worry about high inflation decreasing the purchasing power of their money.

Example:

Each Saturday afternoon you baby-sit for a neighbor for 4 hours and earn \$3.50 per hour. That means you earn \$14 total each Saturday. Each Sunday afternoon, you go to the movies with your friend. You buy the following items with your \$14:

- 1 movie ticket for \$10
- 1 popcorn for \$2
- 1 drink for \$2

Over time, however, the price of movie tickets and food items rises. Eventually, you spend the \$14 you earn each week as follows:

- 1 movie ticket for \$11.50
- 1 popcorn for \$2.50

This is an example of inflation--the prices of things you buy at the movies have risen. The purchasing power of your \$14--the total amount of movie-related goods and services you can purchase with \$14--has declined, because you can buy less with it.



Looks like it's time to ask your neighbor for a raise!

10. What is the FOMC, and what does it do?

FOMC stands for the Federal Open Market Committee. The FOMC consists of twelve members--the seven members of the Board of Governors, the president of the Federal Reserve Bank of New York, and four of the other eleven Reserve Bank presidents. The four Reserve Bank presidents serve one-year terms on a rotating basis. Nonvoting Reserve Bank presidents attend the meetings of the Committee, participate in discussions, and contribute information about economic conditions in their District.

The purpose of the FOMC is to determine the nation's monetary policy. The FOMC holds eight regularly scheduled meetings each year in Washington, D.C. At these meetings, the FOMC reviews economic and financial conditions and sets monetary policy. The term "monetary policy" refers to the actions taken by a central bank, such as the Federal Reserve, to help encourage a healthy economy. The actions taken influence the availability and cost of money and credit, which affect a range of economic variables, including output, employment, and prices of goods and services.

At each of its meetings, the FOMC decides whether or not to change its target for the federal funds rate, and if so, by how much. The FOMC also issues a statement after each meeting explaining its decision, and these statements contain some important information about the FOMC's evaluation of the economy.